QNBFS Alert – QIBK Reports Strong 2Q2015 Results, Albeit a Rise in Impairments

- **2Q2015 earnings exceed expectations.** Qatar Islamic Bank (QIBK) reported a net profit of QR494.7mn in 2Q2015, exceeding our expectation of QR428.3mn (BBG: QR428.2mn, Reuters: QR427.2mn). Net income soared by 23.6 and 26.9% QoQ and YoY, respectively. The beat was mainly due to higher than expected net interest income & investment income. QIBK reported net interest income and investment income of QR732.9mn vs. our estimate of QR634.1mn. On the other hand, other income (QR141.9mn) was slightly lower than our estimate of QR147.8mn (-4.0% variation).

- **Net interest income & investment income were the primary drivers of earnings growth despite a jump in investment impairments.** The bank's net interest income & investment income increased by 21.9% QoQ (+21.8% YoY) to QR732.9.4mn. Moreover, net fees & commissions also displayed positive performance, increasing by 8.7% QoQ (+3.5% YoY) to QR109.2mn. Operating expenses climbed up by 4.4% QoQ and 10.8% YoY to QR261.4mn. Although expenses increased, QIBK's cost-to-income ratio improved to 29.9% vs. 34.1% in 1Q2015 (31.5% in 2Q2014). This was solely due to the growth in total income outpacing opex.

- **Provisions for loan losses soften while investment impairments on the rise.** QIBK's credit costs declined sequentially by 15.9% (down 19.6% YoY) to QR20.2mn. On the other hand, investment impairments surged by 47.0% and 49.2% QoQ and YoY, respectively to QR73.8mn.

- **Balance sheet exhibited robust growth.** Net loans expanded by 18.8% QoQ (+28.4% YTD) to QR76.7bn. Moreover, deposits followed suit and soared by 19.6% QoQ and 27.3% YTD. Hence, the LDR remained flattish at 90% vs. 1Q2015 and end of 2014.

- **Asset quality appears good.** QIBK's NPL ratio stood at 0.7% with a coverage ratio of 108.1%.

- **QR2bn Additional Tier-1 (AT1) perpetual sukuk issuance improves QIBK's CAR.** Capital adequacy ratio stood at 14.8%.

- **Recommendation and valuation:** QIBK trades at a P/E and TP/B of 14.5x and 2.0x on our 2015 estimates respectively. For now we maintain our Market Perform rating.

Recommendations *Based on the range for the upside / downside offered by the 12-month target price of a stock versus the current market price*	
OUTPERFORM	Greater than +20%
ACCUMULATE	Between +10% to +20%
MARKET PERFORM	Between -10% to +10%
REDUCE	Between -10% to -20%
UNDERPERFORM	Lower than -20%

Risk Ratings *Reflecting historic and expected price volatility versus the local market average and qualitative risk analysis of fundamentals*	
R-1	Significantly lower than average
R-2	Lower than average
R-3	Medium / In-line with the average
R-4	Above average
R-5	Significantly above average

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